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SUBJECT: MADRID ECONOMIC/COMMERCIAL WEEKLY AUGUST 4-8

REF: A. CARACAS 1061

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Production, Confidence Down, Unemployment Up

[1](#)1. (U) Spain's National Institute of Statistics (INE) released data August 5 showing that industrial output (mining and manufacturing) for the month of June was down by 9 percent from June 2007. This data is compounded by additional unfavorable economic news including unemployment increases for the month of July and lower consumer confidence. According to the Ministry of Labor and Immigration, the number of people registered as unemployed went up by 36,000 in the month of July, bringing the total to 2,426,916. Construction services, industry and agricultural sectors were most affected. (Comment: This seems to indicate an increase of about 0.1% in the overall unemployment rate during the month; while this may not look like much, unemployment usually falls in July, and 36,000 is the largest July increase on record.) (All Media, 8/6; INE; Ministry of Labor and Immigration)

Negative Rating Agency Actions on 22 Banks/Cajas This Year

[1](#)2. (U) Moody's and Fitch Ratings announced on August 5 downgrades or changes in outlook for seven savings banks (cajas). This brings to 22 the number of Spanish banks or cajas on which Standard and Poor's, Moody's or Fitch have taken negative actions this year. The only significant banking institutions that have escaped negative rating actions this year are the two largest, Banco Santander and BBVA, which are diversified internationally. Nearly all of the 22 institutions are affected by exposure to Spain's troubled residential real-estate market, difficulties in obtaining financing, and lower stock performances. (Expansion, 8/6)

Telecommunications Market Commission Decision Called Anti-Competitive

13. (U) In a controversial ruling July 31, Spain's Telecommunications Regulatory Commission, the CMT, decided that Telefonica would not be obligated to offer its competitors wholesale access to its new high-speed fiber optic network. Critics of the decision contend that this would hamper free competition in the telecommunications market since Telefonica owns and operates all high speed telecommunications lines in Spain. Within Spain's CMT the decision was strongly opposed by three of the regulatory agency's nine commission members. Telefonica's main telecommunications competitors in Spain include Orange, Jazztel, and Tele2Vodafone. (Expansion, 8/6)

Santander in talks to Sell Venezuelan Operation to GOV

14. (U) In an August 1 press release, Grupo Santander confirmed that it was in talks with the GOV to sell its affiliate in Venezuela, the Banco de Venezuela. The talks follow a July 31 announcement by President Chavez stating that Venezuela was interested in purchasing the bank (ref A). Prior to the Chavez announcement, Grupo Santander was reportedly intending to sell the bank to a private Venezuelan entity, with some sources saying that a driving factor was an imminent change in banking regulations. According to Spanish media reports, President Chavez has offered \$1.2 billion for the bank while Santander wants \$1.8 billion. Spanish officials have stated that they are following the transaction closely. Banco de Venezuela has belonged to Grupo Santander, Spain's largest bank, since 1996. (All Media, 8/1-8/6)

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Crackdown on ETA Terrorism Finance Sparking Tensions In Basque Country

15. (U) A recent crackdown on businesses suspected of paying protection money to the terrorist group ETA is being received with indignation by businesses leaders who see themselves more as victims than as conspirators. For years, ETA activities have partially been financed via extortion letters calling for Basque businesses to contribute "Revolutionary Taxes." After the May 20 arrest of senior ETA leader Francisco Javier Gomez Pena (alias "Thierry"), police discovered information loosely linking Basque businesses to nearly 400,000 euros in contributions. Based on this evidence Investigative Judge Baltasar Garzon (a polemic figure in Spain) has spearheaded efforts to uncover those individuals and businesses linked to these activities. Among the business leaders recently detained or interrogated are Sabino Arrieta, the former head of steel manufacturing company Sidenor, and Jesus Guiber, a well-known Basque businessman who was kidnapped for ransom in the early 80s. According to the media, the investigations are being widely perceived as heavy-handed in the Basque community and are sparking tensions. (El Pais, 8/04/08)

No Consensus Reached Yet on Autonomous Community Financing Model

16. (U) The deadline for Catalonia's statute to take effect will soon pass without the necessary consensus on how funds will be distributed among the autonomous communities. This financing agreement was a key prerequisite of the statute, which would have provided the Catalan government more autonomy and control over the funds collected in its territories. Catalan demands touched a raw nerve during a period of reduced economic growth, and other autonomous communities that benefit from the current system of centrally

redistributed funds were opposed to the Catalan model. As a result, the Catalan statute or constitution will not go into effect August 9 as planned. (All Media, ref C)
Aguirre